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Facility
Authority,
Department of

State of Montana

Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

Financial Audit

For the Fiscal Year Ended June 30, 1987

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We issued an unqualified opinion on the financial statements of the authority and our report contains no recommendations. Findings disclosed by our audit, if any, will be reported as part of the biennial audit of the Department of Commerce.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

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Senator Delwyn Gage
Senator Tom Keating
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Representative Bruce Simon

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS
JAMES GILLETT
FINANCIAL COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL
JOHN W. NORTHEY

March 1988

The Legislative Audit Committee
of the Montana State Legislature:

This audit report contains our opinion letter on the financial statements of the Montana Health Facility Authority of the Department of Commerce for the fiscal year ended June 30, 1987. We performed the audit solely to express an opinion on the authority's financial statements. Any findings disclosed by our audit were discussed with management and will be appropriately reported as part of our scheduled biennial audit of the Department of Commerce.

We would like to thank the administrator, his staff and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

Financial Audit for the

Fiscal Year Ended June 30, 1987

Members of the audit staff involved in this audit include: Laurie Andres, Wayne Guazzo, and Lorry Parriman

TABLE OF CONTENTS

	PAGE
Appointed and Administrative Officials	ii
Introduction and Background	1
Auditor's Opinion Letter and Agency Financial Statements	
Auditor's Opinion Letter	3
Balance Sheet - Enterprise Fund June 30, 1987	4
Statement of Revenues, Expenses, and Changes in Retained Earnings, Enterprise Fund, for the Fiscal Year Ended June 30, 1987	5
Statement of Changes in Financial Position, Enterprise Fund, for the Fiscal Year Ended June 30, 1987	6
Notes to the Financial Statements	7
Agency Response	12

APPOINTED AND ADMINISTRATIVE OFFICIALS

MONTANA HEALTH FACILITY AUTHORITY

BOARD MEMBERS

		Term Expires
Mary D. Munger, Chairman	Helena	June 30, 1991
Charles V. Shewey, Vice Chairman	Bozeman	June 30, 1989
Sidney K. Brubaker	Terry	June 30, 1988
Dalyce K. Flynn	Townsend	June 30, 1988
R.H. Robinson	Missoula	June 30, 1988
Dr. Amos Little, Jr.	Helena	June 30, 1989
Dr. Garry Pitts	Billings	June 30, 1990

ADMINISTRATIVE STAFF

Jerry Hoover (effective: 7/6/87)	Administrator
Jack Nielson (resigned: 1/5/87)	Administrator
Helen Julian	Administrative Assistant

INTRODUCTION

We performed a financial audit of the Montana Health Facility Authority of the Department of Commerce for the fiscal year ended June 30, 1987. The objective of the audit was to determine if the authority's financial statements present fairly its financial position at June 30, 1987, and the results of its operations and changes in financial position for the fiscal year then ended. Compliance testing of the authority is included in the regularly scheduled biennial audit of the Department of Commerce.

BACKGROUND

The Montana Health Facility Authority was established during the 1983 Legislative Session to provide low cost financing of capital expenditures for nonprofit Montana health institutions. The authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the authority's operation is performed by the department's Management Services Division. The authority currently administers the two programs discussed below.

The Pooled Loan Program is designed to provide financing and refinancing for land, buildings, equipment, and improvement costs of qualified health institutions. Under this program, the authority issues debt to establish a pool of funds for loans to project participants. The proceeds are loaned to qualifying health institutions at rates which reflect the rates paid by the authority on the bonds plus the ongoing program costs. During fiscal year 1986-87, there were no new Pooled Loan Program bond issues. However, a portion of proceeds from a previous bond issue were available for loans to qualifying health institutions. Revenue bonds outstanding for the Pooled Loan Program totaled $65,900,000 at June 30, 1987. Pooled Loan Program bonds outstanding mature in 2015. This feature will allow the authority to loan principal repayments received under outstanding loan agreements, providing a pool of money which the authority can use to fund low interest loans for eligible health facilities until 2015. Loans being made by the authority are structured so that repayments from the loans can be used to redeem all outstanding bonds in 2015.

The Single Project Financing Program authorizes tax exempt financing on a project-by-project basis. Bonds or notes are issued for individual projects under this program. Prior to fiscal year 1986-87 the authority issued debt totaling $19,640,000 for three projects ranging from $440,000 to $18,000,000 under this program. Interest and other associated costs are paid by the participating institutions. During fiscal year 1986-87, the authority did not issue any new debt. In July 1987, the authority issued $16,025,000 of revenue bonds under the Single Project Financing Program to advance refund 1984 City of Bozeman revenue bonds.

AUDITOR'S OPINION LETTER

AND AGENCY FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS
JAMES GILLETT
FINANCIAL COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS
LEGAL COUNSEL
JOHN W. NORTHEY

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial statements of the Enterprise Fund of the Montana Health Facility Authority as of and for the year ended June 30, 1987, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described more fully in Note 2, the financial statements present only the Enterprise Fund of the Montana Health Facility Authority and are not intended to present fairly the financial position or the results of operations and changes in financial position of the state of Montana in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the financial position of the Enterprise Fund of the Montana Health Facility Authority at June 30, 1987, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 20, 1988

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

BALANCE SHEET - ENTERPRISE FUND
JUNE 30, 1987

ASSETS	
Cash	$138,663
Prepaid Expense	745
Fixed Assets (net of accumulated depreciation)	19,980
Total Assets	$159,388
LIABILITIES AND RETAINED EARNINGS	
Liabilities:	
Compensated Absences	$ 2,493
Accounts Payable	25
Total Liabilities	2,518
Retained Earnings:	156,870
Total Liabilities and Retained Earnings	$159,388

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

REVENUE		
Fee Income		$129,376
Total Revenues		129,376
EXPENSES		
Personal Services		56,477
Contracted Services		5,417
Supplies and Materials		2,157
Communications		5,180
Travel		8,143
Rent		4,612
Repairs and Maintenance		2,280
Other Expenses		7,698
Depreciation - Equipment		3,005
Prior Year Expense Adjustment		232
Total Expenses		95,201
Revenues Over Expenses		34,175
Retained Earnings Beginning of Period	$122,155	
Prior Period Adjustment	540	
Retained Earnings Beginning of Period Restated		122,695
Total Retained Earnings		$156,870

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

SOURCES OF CASH	
Operations:	
Revenues Over Expenses	$ 34,175
Item not requiring cash:	
Depreciation	3,005
Cash Provided by Operations	37,180
Decrease in Accounts Receivable	682
Total Sources of Cash	37,862
USES OF CASH	
Decrease in Accounts Payable	6,787
Increase in Prepaid Expenses	745
Purchase of Fixed Assets	3,439
Decrease in Compensated Absences Payable	3,477
Total Uses of Cash	14,448
Net Increase (Decrease) in Cash	$ 23,414

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1987

1. AUTHORIZATION

The Montana Health Facility Authority is a quasi-judicial board created by the Montana Legislature in 1983 with health care cost containment as its purpose. In the fulfillment of this purpose, the authority provides a variety of capital financing and refinancing alternatives to eligible health facilities in Montana. The authority may in each biennium issue bonds and notes in an aggregate principal amount not to exceed $150 million, exclusive of bonds or notes issued to refund its outstanding bonds or notes. Obligations issued by the authority do not constitute a debt, liability, obligation, or pledge of the faith and credit of the state but are payable solely from the revenues or assets of the health institution being financed. The authority is attached to the Montana Department of Commerce for administrative purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Montana Health Facility Authority Enterprise Fund uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

B. Reporting Entity

The preceding financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments and include the financial activity of the Montana Health Facility Authority Enterprise Fund. These statements are summaries of entries in SBAS recorded for the authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or changes in financial position of the state of Montana.

C. Nature of Fund

The fund maintained by the authority, which conforms with authorizing legislation and authority resolutions, is described as follows:

Enterprise Fund

The Enterprise Fund is used to account for operations (a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or (b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

D. Loans

Before bonds were issued, eligible health facilities indicated in writing their intent to borrow all of the authority's available loan funds. The loans, in many instances, are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the authority and utilized by the health facilities. In all remaining transactions, loan payments are secured by standby letters of credit from rated banks.

E. Project Financing

Resolutions adopted by the authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. During fiscal year 1986-87, specific funds established by agreements were held by trustees and another participating financial institution. A reserve of $10,000,000 is maintained by the trustees for the purpose of liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

F. Fixed Assets

Fixed assets are carried at cost less accumulated depreciation of $4,882. Depreciation is provided for using the straight-line method over the respective estimated useful lives of the assets.

G. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1987, was immaterial.

H. Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave.

3. LIABILITIES

These liabilities do not constitute a debt or liability to the state of Montana or any political subdivision thereof.

Revenue Bonds Payable:

Issue	Due	Interest Rate	Amount
Health Care Revenue Bonds (Pooled Loan Program) Series 1985A Variable Rate Revenue Bonds*	2015	Variable	$65,900,000
Billings Deaconess Hospital Series 1985 Hospital Facilities Variable Rate Revenue Bonds	1989-2015	Variable	18,000,000
Revenue Bonds Outstanding			$83,900,000

* In December 1985, the Montana Health Facility Authority issued variable rate demand bonds of $66,900,000 for the Pooled Loan Program. A portion of these bonds was used to refund outstanding bonds totaling $23,500,000. During fiscal year 1987 the authority retired $1,000,000 of variable rate demand bonds.

Stated maturities on Revenue Bonds Payable are as follows:

Year ended June 30...	
1989	$ 100,000
1990	100,000
1991	100,000
1992	100,000
1993	100,000
1994	100,000
1995	100,000
1996-2000	1,200,000
2001-2005	2,300,000
2006-2010	4,600,000
2011-2015	75,100,000
Total	$83,900,000

The bonds are payable solely from loan repayments to be made by health institutions pursuant to loan agreements and, further, from the funds created by the indenture and investment earnings thereon.

Revenue Notes Payable:

Issue	Due	Interest Rate	Amount
West Mont Home Health Services, Inc. Series 1985 Hospital Revenue Note	1987-2004	2% Under Bank Floating Rate	$407,776
Revenue Notes Outstanding			$407,776

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

4. EMPLOYEES' RETIREMENT SYSTEM

The authority employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the state of Montana. Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. All eligible employees contribute 6.0 percent of gross wages. The authority's contribution to PERS for the fiscal year ended June 30, 1987 was $3,049.

The state's policy is to fund accrued pension costs. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plan employed by the authority. The most recent actuarial evaluation reported the Public Employees' Retirement System was actuarially sound at June 30, 1986.

5. SUBSEQUENT EVENT

In July 1987, the Montana Health Facility Authority issued bonds in the amount of $16,025,000 for the Bozeman Deaconess Foundation. The proceeds of this issue were used by the facility to advance refund its 1984 City of Bozeman revenue bonds. The foundation estimates that, after considering all costs of issuing the debt, the refunding will yield an annual savings of nearly $290,000 over a 27-year period.

AGENCY RESPONSE

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

TED SCHWINDEN, GOVERNOR

1520 EAST SIXTH AVENUE

STATE OF MONTANA

(406) 444-5435
FAX (406) 444-5439

HELENA, MONTANA 59620

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MONTANA LEGISLATIVE
AUDITOR

March 8, 1988

Mr. Scott Seacat
Legislative Auditor
State Capital
Helena, MT 59620

Dear Mr. Seacat:

This correspondence is to inform you that the Authority is pleased with the results of the recent legislative audit and to thank you for the cooperative working relationship between the staff of your office, and the Department of Commerce and the Authority during the audit.

Sincerely,

Jerry R. Hoover
Administrator

/kh

Board of Directors: Mary D. Munger, Chairman, Helena

Charles V. Shewey, V. Chairman
Bozeman
Dr. Garry Pitts, Secretary
Billings

Sidney K. Brubaker
Terry
Dalyce K. Flynn
Townsend

Dr. Bud Little
Helena
Ty Robinson
Missoula